

## BW-12 Adaptation Assessment - Identifying Solutions to Impacts from BW-12

In July 2012, the U.S. Congress passed the Biggert-Waters Flood Insurance Reform Act of 2012 (BW-12) which reauthorized the National Flood Insurance Program (NFIP) for five more years but also called upon the Federal Emergency Management Agency (FEMA) and other agencies to make a number of changes to the way the NFIP is run. As a community official, it is important to be aware of the potential impact on your constituents as BW-12 is implemented. The dynamics of your community may change as policy holders consider the affordability of living in areas that now demand new premiums.

What will be the projected short- and long-term economic impacts? Consider the residential perspective. What will happen to the closing costs for older homes and how will this affect affordability? What will happen to rental costs or mortgage payments? How will the financial ability of people to move into certain areas in your community be affected? And what will happen if some homes are not able to sell? What will the potential impact of these changes be on property values and related income for the community from property taxes? Business impacts are also critical. Will the combination of heightened insurance costs affect the viability of small businesses? How will development decisions be affected by current and projected changes in flood insurance rates?

### Background

BW 12 legislation contains key provisions that require the NFIP to make the program more financially stable by raising rates to reflect true flood risk. The changes will mean premium rate increases for many policyholders, as well as substantial increases for others.

Among those changes is the removal of long-standing subsidies and discounts. The first phase of rate increases (Section 100205 of BW-12) affects many policyholders who own buildings built before the community adopted its first Flood Insurance Rate Map, known as pre-FIRM buildings, and are located in high-risk areas<sup>1</sup> known as Special Flood Hazard Areas, or SFHAs. These policyholders historically have paid subsidized rates that do not reflect the property's true flood risk. Rates will rise incrementally for some current policyholders and immediately for anyone who purchases a pre-FIRM structure after BW-12's enactment date of July 6, 2012.

"Owners of primary residences in SFHAs **will be able to keep their subsidized rates** unless or until they: (1) sell their property; (2) allow their policy to lapse; (3) suffer severe, repeated flood losses; or (4) purchase a new policy.

<sup>1</sup> This applies to buildings in flood zones beginning with the letters "A" or "V" except for A99 and AR; while not an SFHA, BW-12 also applies to Zone D. In this document, the general term "SFHA" will be used to refer to these affected buildings.

### IMPACTS AT-A-GLANCE FOR THE FIVE DELTA COUNTIES

**Total # Policies in the Region**  
**82,273**

**Total # of Subsidized Policies**  
**6,229**

Percent Subsidized Policies  
for **Primary Residences**  
**59%**

Percent Subsidized Policies  
for **Non-Primary Residences**  
**30%**

Percent Subsidized Policies  
for **Condos/ Multi-Family**  
**11%**

Percent of Policies Subsidized  
**-Sacramento County**  
**2.82%**

Percent of Policies Subsidized  
**-San Joaquin County**  
**12.7%**

Percent of Policies Subsidized  
**-Contra Costa County**  
**40.2%**

Percent of Policies Subsidized  
**-Solano County**  
**25.6%**

Percent of Policies Subsidized  
**-Yolo County**  
**8.0%**

*Compiled from NFIP statistics as of  
06/31/13*

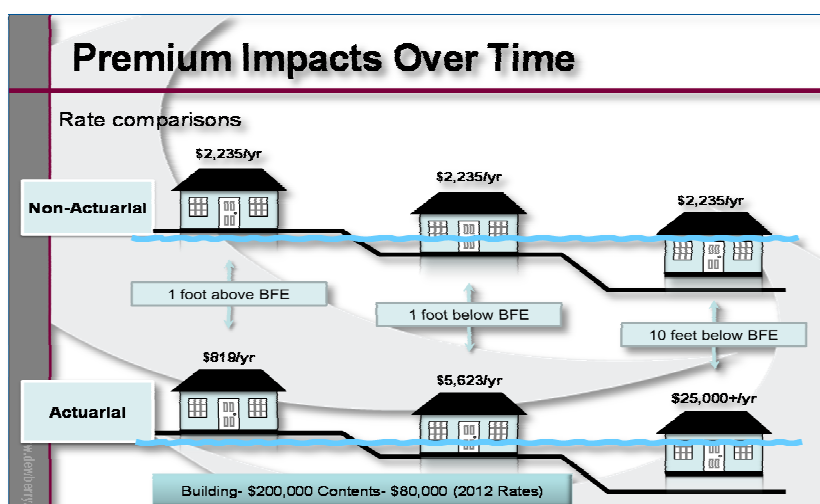
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### Who's Affected Now

Under **Section 100205**, owners of **pre-FIRM** (i.e., before March 15, 1979), **non-primary/secondary residences**<sup>2</sup>, as well **businesses/non-residential** buildings and buildings in SFHAs that have received severe or repeated NFIP losses (**SRL**) will experience a **25- percent rate increase each year** until they reach full-risk rate<sup>3</sup>. If a pre-FIRM building in an SFHA or policy on a pre-FIRM building in an SFHA is newly purchased after July 6, 2012, the owner will have to pay full-risk rate. Likewise, if a policy on a pre-FIRM building in an SFHA is allowed to lapse any time after October 4, 2012, the owner will have to pay full-risk rate.

For many of these affected pre-FIRM building owners, the increases could be financially significant. For example:

- Small businesses may not be able to afford a 25 percent increase.
- Owners of rental properties who provide affordable rental housing may not be able to pass on the increase in rent. These owners could find themselves unable to carry the additional burden of financially protecting their investment.
- Homeowners who wholly own their residence and do not have a policy, but wish to purchase one, especially after a map change, may not be able to afford to do so and will be financially at risk to the next flood. Also, if the homeowners are seeking to re-finance, take out a home improvement loan or obtain a line-of-credit, the lender may require flood insurance or reduce the collateral value.
- Homeowners will find it harder to sell their pre-FIRM home.



**Figure 1. Estimated premium changes due to BW 12 (source: FEMA)**

### Section 100205

The new legislation can have significant impact on the cost of flood insurance for **pre-FIRM** buildings in high-risk areas (**SFHAs**).

For example, as shown on the accompanying graphic, the flood insurance rate on a pre-FIRM secondary home in Zone AE with \$200,000 in building and \$80,000 in contents coverage will be **\$2,285/year** (Figure 1).

If in determining its full-risk rate (i.e., obtaining an EC), the Lowest Floor Elevation is found to be just one foot below the Base Flood Elevation (BFE), the full-risk premium would be **\$5,623/year** (Figure 1).

If the Lowest Floor Elevation is found to be ten feet below the BFE, the full-risk premium could be **\$25,000+/year** (Figure 1).

Under Section 100205, the premium rates would increase by 25% per year until the rates reflect the **“true risk”**.

Under Section 100207, the rates would increase by 20% each year over 5 years to reach **“true risk”**.

<sup>2</sup> A non-primary/secondary residence is defined as one that will be lived in by the insured or the insured's spouse for less than 80 percent of the policy year.

<sup>3</sup> A full-risk rate policy is defined by FEMA as one that is rated using an elevation certificate.

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### Who's Likely to be Affected

Under **Section 100207**, flood discounts for owners of **post-FIRM** primary residences,<sup>4</sup> including “grandfathered rates,” will experience a **20- percent rate increase each year over a five-year period** to reach the full-risk rate<sup>5</sup>. If a post-FIRM building in an SFHA or policy on a post-FIRM building in an SFHA is newly purchased after July 6, 2012, the owner will have to pay the full-risk rate. Likewise, if a policy on a post-FIRM building in an SFHA was allowed to lapse any time after October 4, 2012, the owner will have to pay full-risk rate. Finally, if the community adopts a new Flood Insurance Rate Map (FIRM) after July 6, 2012, the “grandfathered rate” will be phased out and the rates will be increased by 20% per year for five years. Implementation is currently scheduled to go into effect in late-2014.

The law states under Section 100207: “Any property located in an area that is participating in the [NFIP] shall have the risk premium rate charged on such property charged for flood insurance on such property adjusted to accurately reflect the current risk of flood to such property...Any increase in the risk premium rate charged for flood insurance on any property that is covered by a flood insurance policy on the effective date... shall be **phased in over a five-year period at the rate of 20 percent for each year** following such an effective date. In the case of any area that was not previously designated as an area having special flood hazards and that, **pursuant to any issuance, revision, updating, or other change in a flood insurance map, becomes designated as such an area**, the chargeable risk premium rate for flood insurance... shall be phased in over a five-year period, at the rate of 20 percent for each year following the effective date of such issuance, revision, updating, or change.”

### Identifying the Impact

Dewberry, a firm that has been providing planning, engineering and mapping services for over 55 years, has developed a proprietary service that will help communities identify where the impact will occur, what the potential financial impact could be and provide possible solutions to reduce the impact. The assessment will provide clear actionable strategies that help inform mitigation and premium reduction activities and guide the effective application of economic programs. Outcomes will include:

- An informed profile of buildings impacted
- A series of customized tools and methods to help inform public understanding of the impact of the policy changes and the approach going forward to address such issues as:
  - Strategic and tactical integration of infrastructure and environment programs
  - Measures to be taken to minimize adverse impacts and maximize benefits
- A timeline of tactically scored and prioritized adaptation projects
- A transparent, tactical, adaptation strategy for mitigating the effects of BW-12 on the community.

In short, the potential for economic dislocation and reduced resiliency based on BW-12 is not trivial. Understanding the nature and seriousness of the changes that will be brought about is important for local officials.

For more information, please contact John Moynier at [jmoynier@dewberry.com](mailto:jmoynier@dewberry.com) or 916-380-3769.

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<sup>4</sup> A primary residence is defined as one that will be lived in by the insured or the insured's spouse for more than 80 percent of the policy year.

<sup>5</sup> A full-risk rate policy is defined by FEMA as one that is rated using an elevation certificate.